

PRIVATIZATION OF ARMY UTILITY SYSTEMS



A Guide for Army Garrison Commanders

presented by
the Office of the
Assistant Chief of Staff
for Installation
Management

A Word from the ACSIM

Privatizing your installation utility plants and systems by divesting them to public/private entities allows us to reallocate scarce civilian manpower and financial resources to the functions that are most critical to the Army's core missions.

The Army is leading the way to meet the DoD directive to privatize all systems by 2003. Installations and Garrison Commanders should take a personal interest in the success of this important DoD initiative.

R. L. VAN ANTWERP

Major General, USA

Assistant Chief of Staff for Installation Management

*WATER
DISTRIBUTION*

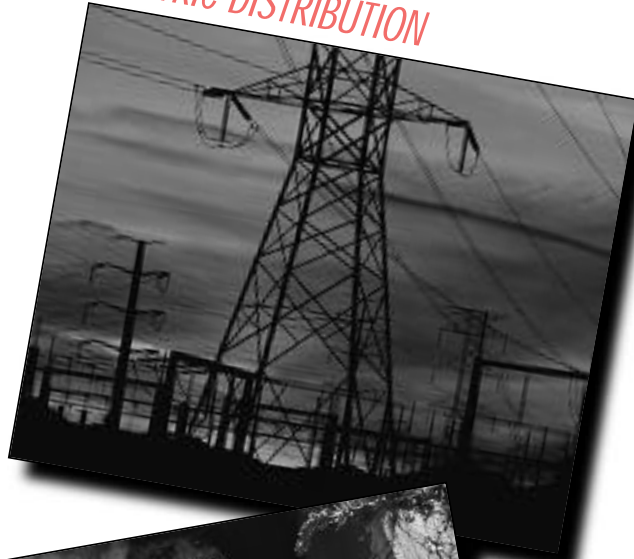


*NATURAL GAS
DISTRIBUTION*





ELECTRIC DISTRIBUTION



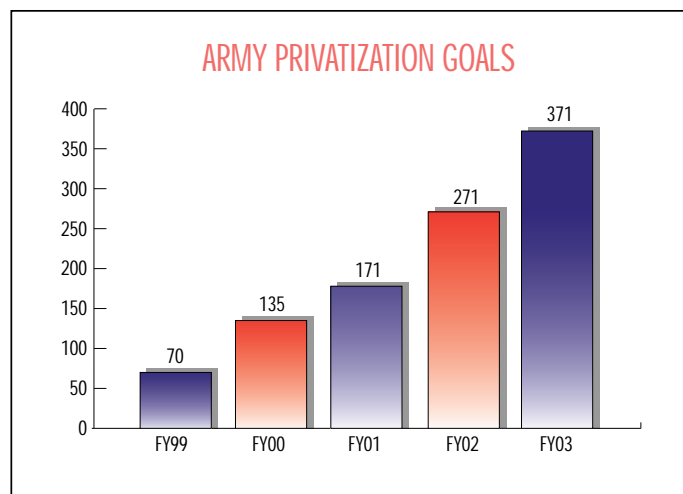
*WASTE WATER
TREATMENT*



What is Utility Privatization?

Privatization means the transfer of ownership, operations & maintenance, and improvement of Army utility plants and systems to municipal, private, local, or regional utility companies. Defense Reform Initiative Directive (DRID) #49, issued by the Deputy Secretary of Defense on 23 Dec 98, requires "the privatization of utilities and utility systems is to be conducted at all installations, both in the United States and overseas, that have utility systems to convey. All Active Duty, Reserve, and Guard installations, both major and minor, *not* currently designated for closure under the Base Realignment and Closure (BRAC) Act, will be considered candidates for utility system privatization."

In implementing DRID #49, the Army intends to privatize 70 systems in FY99, 135 systems in FY00, and 813 systems in FY01-03.



Why Should the Army Privatize?

Privatization through total asset divestiture takes the burden off the Installation and places that responsibility on the broad shoulders of a utility provider which is organized, staffed, financed, and equipped to provide a better level of safe, reliable and environmentally compliant service.

The Army lacks the necessary resources to ensure the safe and reliable operation of utility systems to meet mission needs. Utility maintenance and repair accounts continue to be underfunded; infrastructure is aging without necessary improvements; and the civilian manpower restrictions and downsizing have affected the ability to operate and maintain the systems properly.

Under a privatized system, the Army will become a utility customer, not a utility provider.

How Do We Start – What Do We Do?

- *Get a clear picture of your utility systems.* Ask your Director of Public Works for a frank assessment of the installation's utility systems and infrastructure. What can be fixed with better preventive maintenance? What's being programmed for major repair projects and the military construction (MCA) program? What is the likelihood of funding?
- *Find out what it is costing you today.* Operations and Maintenance, preventative maintenance repair projects, MCA, environmental compliance, plus overhead and administrative costs. Factor in what level of funding "should be" for a prudent level of renewal investment and maintenance and repair.
- *Identify all the public and private sector companies who supply utility services in your area.*
- *Tie in with the regional planning group* and identify your role in helping to develop a regional solution.
- *Contact suppliers and alternative sources at the executive level.* Meet with them yourself to talk about their long-term plans and how your participation may benefit all parties.
- *Get your own privatization team together* — make sure you include your Director of Contracting, Director of Public Works, Judge Advocate General, Director of Resource Management, Environmental, Civilian Personnel Office, and your local Corps of Engineers District. Keep your labor union representative informed and involved in your plans.
- *Contact your POCs* at the Major Command or ACSIM for assistance. Army has partnered with the Defense Energy Support Center (DESC) to provide all required assistance with studies, contracting, negotiations, legal, and engineering support. Assistance also is available from USACE districts.
- *Have your DOC and JAG determine your competition in contracting requirements.* Generally Army utility privatization actions will not be subject to state utility regulatory oversight or utility franchise rules. However, the local state utility commission should be informed concerning utility privatization plans to insure consideration of technical, regulatory and safety issues associated with the interconnection of the Army's privatized system to utility systems off the installation. The Army's Regulatory Law Office (OTJAG) represents the Army before state utility commissions and can provide assistance with any utility regulatory issues.
- *Have your DOC solicit "expressions of interest" or formal "proposals" from all qualified potential utility service suppliers, or develop regional solutions with surrounding communities.*

- *Evaluate proposals* by comparing with the in-house “should be” cost scenario and adopt the most life cycle cost-effective approach that will bring the total utilities services up to required standards. Evaluations at Non-OMA funded installations require carefully prepared Life Cycle Cost Analyses that must consider and document all cost effects to missions, products, operations and to reimbursable Army and other Defense customers.
- All assessments, studies, fair market values, government estimates are “Procurement Sensitive”. Guard information releases accordingly!
- *Prepare environmental, real estate, and contract documentation*. Your supporting Engineer District, Huntsville Center, and DESC can help you. *Start immediately with the environmental considerations and real estate documentation*.
- *If land transfers are required (potentially for water and wastewater treatment plants)*, OASCIM and the Assistant Secretary of the Army (Installations and Environment) will seek legislative authority. Action cannot be started until the utility provider is identified and an interim lease may be required. *Land transfer requires Congressional authorization in the annual DoD Act and can take up to two years*.
- *Finalize Negotiations — Obtain Approvals — Sign Documents — PRIVATIZE*.

What about BRAC?

Installations scheduled for closure under BRAC do not fall under DRID #49 for privatization. These systems are being counted as part of the privatization program. If your installation is identified for closure —

- *Discuss utilities transfer as a first order of business*.
- *Divest utilities as a total package*. Any planned Active Army, National Guard or Reserve enclaves should become utility customers, not suppliers.
- *Review Army long-range stationing plans* for requirements for military enclaves, determine their utility requirements, and reserve capacities as part of real estate transfers and utility service contracts.
- *Determine the fair market value* of the entire utility infrastructure for installation reuse options.
- *Develop a negotiating strategy* to trade off the value of utility systems against noncompliance and other future costs.

Key Issues

- *Utilities Privatization Tracking System (PTS) — Keep your data current*. Privatization status must be reported quarterly to USD(A&T). The Army and OSD leadership rely on PTS for the latest information. *The PTS is located on the web at www.sbcweb.calibresys.com/ptsWeb/default.asp*

- *Length of utility contracts* — By the FAR, utility contracts are limited to a maximum 10-year limit. OMB has cleared a legislative proposal for a 50-year term. It is included in the DoD Authorization Bill going to Congress in April 1999.
- *Contribution in Aid of Construction (CIAC) Tax* — Expect no relief from the CIAC tax. All economic analyses must include the tax, when applicable, as a cost associated with privatization.
- *J Account Funds* — Additional resources, if necessary, will be programmed into the account for actual increase from privatization. Funds have already been identified for FY99-FY01.
- *Commercial Activities (A-76)* — A-76 studies are not required when privatizing Army-owned utility systems. Since there will be a transfer of assets, the functions are not being “contracted out”.
- *Land Transfers* — The transfer of land requires a specific line item Congressional approval. This process takes one to two years. Use easements and interim land leases for the privatization actions.

What are the Guidelines for Exemption?

The DRI exempts utility systems that are uneconomical to privatize or have unique security reasons why they should not privatize. “Unique security reasons” are those situations in which ownership of the system by a private utility or other entity would substantially impair the mission of the Department concerned; or would compromise classified operations or property.

Exemptions based upon economics are determined at three different steps in the process. First, a system may be uneconomical if there is no demonstrated market interest from the private sector to acquire the system.

The second decision point occurs after completion of a privatization study. If the estimated privatization cost is at least 25 percent higher than the government “should have been” costs, the system is uneconomical to privatize.

If the economic analysis of the final negotiated proposal during the solicitation phase identifies a privatization cost that is at least 10 percent greater than the government “should have been” costs, the system is considered to be uneconomical to privatize. A memorandum and full justification documentation must be forwarded to HQDA to request an exemption from privatization. *Only the Secretary of the Army may approve exemptions.*

POINT OF CONTACT

Director of Facilities and Housing, Office of the Assistant Chief of Staff for Installation Management (ASCIM), HQDA formulates Army policy on utilities privatization; provides Army Staff executive oversight, and coordinates all staff actions to secure Secretary of the Army authorization for privatizing utility systems, additional Congressional authorization if land transfer is required, and exemptions.

Our Team:

John Nerger, Director of Facilities and Housing,
(703) 697-4221; E-mail: nergejb@hqda.army.mil

COL David Reed,
Deputy Director of Facilities and Housing,
(703) 697-4221; E-mail: reeddm@hqda.army.mil

John Krajewski,
Chief, Facilities Utility Privatization Division
(703) 428-6170; E-mail: krajej@hqda.army.mil

Satish Sharma,
Chief, Utility Privatization and Engineering Branch
(703) 428-7001; E-mail: sharmsk@hqda.army.mil

Bill Eng, DAIM-FDF-UE
(703) 428-7078; E-mail: engwf@hqda.army.mil

Carey Klug, DAIM-FDF-UE
(703) 428-6175; E-mail: klugcl@hqda.army.mil

Regina Larrabee, DAIM-FDF-UE
(703) 428-8030; E-mail: larrarm@hqda.army.mil

Richard Dubicki, DAIM-FDF-UE
(703) 428-7617; E-mail: dubicrf@hqda.army.mil



QUALITY FACILITIES FOR QUALITY SOLDIERS!